

## Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /109 W

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R 180726Z OCT 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1538

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH UNN

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF OCTOBER

11-18

1. SUMMARY . THE DOLLAR FELL, ROSE AND THEN FELL AGAIN DURING THE WEEK, CLOSING ON FRIDAY AT 2.6460, A DECLINE OF .0115 FOR THE WEEK. THE GOLD PRICE STRENGTHENED FURTHER, CLOSING AT \$144.50 FOR A GAIN OF \$2.00. THE SF APPRECIATED AGAINST THE DM, CLOSING FRIDAY AT 103.30, AN INCREASE OF .32. AT A PRESS CONFERENCE IN ZURICH SNB PRESIDENT LEUTWILER ANNOUNCED THAT THE TECHNICAL TALKS ON SWISS ENTRY INTO THE SNAKE

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HAD BEEN SUCCESSFUL, AND THAT REMAINING FRENCH OBJECTIONS

WERE IN THE AREA OF MONETARY POLICY. SWITZERLAND WILL BEGIN TO TAKE PART IN THE DAILY CONSULTATIONS OF SNAKE PARTICIPANTS RIGHT AWAY. THE WHOLESALE PRICE INDEX FELL .7 PERCENT IN SEPTEMBER; THE RETAIL PRICE INDEX ROSE .4 PERCENT. UNEMPLOYMENT ROSE FROM .3 PERCENT TO .4 PERCENT OF THE WORK FORCE, TO MORE THAN 12,000. IMPORTS WERE DOWN 10.9 PERCENT BY VALUE, IN REAL TERMS; EXPORTS WERE DOWN 1.9 PERCENT, BY VALUE, IN REAL TERMS. THE SWISS TRADE DEFICIT AT THE END OF THE FIRST THREE QUARTERS IS 92.2 PERCENT LOWER THAN FOR THE SAME PERIOD LAST YEAR. THE MONEY MARKET CONTINUED TO BE VERY LIQUID.

2. GOLD AND FOREIGN EXCHANGE: THE DOLLAR WAS UNDER SOME PRESSURE THROUGHOUT MOST OF THE WEEK, BUT AFTER A HECTIC MORNING ON MONDAY THE VOLUME FELL OFF RATHER SHARPLY. OPENING AT 2.6575 ON MONDAY IN ROSE TO 2.6825 AT THE CLOSE TUESDAY. DEALERS CITED THE OVERSOLD POSITION OF THE DOLLAR AND TECHNICAL READJUSTMENTS IN FORWARD POSITIONS AS REASONS FOR THE RECOVERY. ON WEDNESDAY, HOWEVER, RENEWED SELLING PRESSURE DROVE THE RATE DOWN TO 2.6605 AND ON THURSDAY TO A CLOSING RATE OF 2.6435. ON THAT DAY THE MARKET WAS DESCRIBED AS VERY NERVOUS AND THIN; A \$3 MILLION SALE COULD CAUSE A DROP OF AS MANY AS 20 POINTS. TRADERS POINTED TO THE ABSENCE OF ANY GOOD NEWS TO COUNTER THE BAD NEWS COMING FROM THE UNITED STATES; FOR EXAMPLE, THE RENEWED INCREASE IN INVENTORIES, A REPORTED STATEMENT BY VICE PRESIDENT ROCKEFELLER TO THE EFFECT THAT A NEW YORK CITY BANKRUPTCY WOULD BE A CATASTROPHE, AND THE DROPPING OF THE MOODY RATING ON CONNECTICUT STATE BONDS FROM AAA TO AA. ALL THESE FACTORS CONTRIBUTED TO CONSIDERABLE UNCERTAINTIES. THE DOLLAR RATE DRIFTED AROUND 2.65 ON FRIDAY, CLOSING AT 2.6460. ONE EXPERIENCED FOREIGN EXCHANGE DEALER TOLD US THAT IF IT WERE NOT FOR THE NEW YORK STORIES, GIVEN THE GENERAL DIRECTION OF THE US ECONOMY, THE RATE WOULD BE 2.75-2.80.

THE GOLD MARKET REMAINED QUIET WITH LOW TURNOVER UNTIL FRIDAY, WHEN TRADING BECAME FAIRLY ACTIVE. TRADERS

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SAID THAT REUTERS REPORTS FROM THE IMF ON ITS INTERNAL CONSIDERATION OF HOW TO MANAGE SALES OF GOLD TO BENEFIT THE LDC'S CONTRIBUTED TO A STRENGTHENING OF THE PRICE, FROM \$142.50 AT THE MONDAY OPENING TO \$144.50 AT THE FRIDAY CLOSE.

FORWARD RATES ARE BEGINNING TO REFLECT YEAR-END LIQUIDITY REQUIREMENTS.

THE SF/DM RATE OPENED ON MONDAY AT 103.62, AND  
CLOSED FRIDAY AT 103.05. THE MARKET WAS QUIET, TRADING  
LIGHT, AND PARTICULARLY ON FRIDAY THERE WAS VERY LITTLE  
ACTIVITY.

RATES WERE AS FOLLOWS:

	10/13 (OPEN)	10/17 (CLOSE)
SPOT DOLLAR	2.6575	2.6460
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	4.74	4.76
TWO MONTHS	4.74	4.81
THREE MONTHS	3.91	3.98
SIX MONTHS	4.04	4.04
TWELVE MONTHS	3.56	3.53
GOLD	142.50	144.50
SF/DM	103.62	103.30

3. MONEY AND CAPITAL MARKETS: STOCK PRICES FLUCTUATED  
ALL WEEK; ON FRIDAY OCTOBER 10 THE SKA INDEX (END 1959  
EQUALS 100) STOOD AT 175.4; ON MONDAY THE 13 AT 174.6.  
THE AVERAGE ROSE TO 176.4 ON THE 14, FELL TO 125.7 ON  
THE 15 AND CLOSED AT 176 ON THE 16.

FROM OCTOBER 8 TO 15 FOREIGN EXCHANGE RESERVES FELL  
BY 369.1 MILLION SWISS FRANCS TO 9,708 MILLION. LIQUIDITY  
IN THE PRIVATE SECTOR INCREASED BY 636.3 MILLION SWISS  
FRANCS. THE CALL MONEY RATE WAS UNCHANGED AT .5 PERCENT;  
THE MEDIAN YIELD ON CONFEDERATION BONDS FELL FROM 6.15  
PERCENT ON OCTOBER 13 TO 6.12 PERCENT ON OCTOBER 10.

4. SWISS NATIONAL BANK - PRESS CONFERENCE ON THE SNAKE  
AND OTHER QUESTIONS: AT A PRESS CONFERENCE ON OCTOBER 16,  
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DEPARTMENT PASS TREASURY AND FRB

FRITZ LEUTWILER, PRESIDENT, SWISS NATIONAL BANK SAID THAT THE REPORT OF THE TECHNICAL EXPERTS ON SWISS PARTICIPATION WAS DISCUSSED IN BASEL BY CENTRAL BANK GOVERNORS ON OCTOBER 13, AND THAT THE REPORT IS POSITIVE, ALTHOUGH QUOTE ONE CENTRAL BANK END QUOTE RESERVED ITS POSITION. THESE RESERVES HAD TO DO ONLY WITH MONETARY QUESTIONS; THE CONCERN THAT THE SWISS FRANC WOULD PULL OTHER SNAKE CURRENCIES TO HIGHER LEVELS. LEUTWILER CONFIRMED THAT THE SNB IS PREPARED TO INCREASE ITS INTERVENTIONS IN DOLLARS IF NECESSARY TO STABILIZE RATES, TO PARTICIPATE IN CONSULTATIONS AMONG SNAKE PARTICIPANTS, BEGINNING SOON AND INDEPENDENT OF THE DATE OF SWISS AD-UNCLASSIFIED

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HESION, AND TO IMPROVE (AMELIORER) SWISS STATISTICS.

ON THE QUESTION OF REGULATION OF THE EXCHANGE MARKET, LEUTWILER SAID THAT THE SNB ENVISAGES ONLY THOSE CONTROLS NOW UNDER STUDY; REGULATION OF THE PROFESSION OF EXCHANGE DEALERS AND THE POSSIBILITY OF A NEW REDUCTION IN THE VOLUME OF FORWARD SALES OF SWISS FRANCS TO NON-REDIDENTS.

SPEAKING OF THE EVOLUTION OF THE CAPITAL MARKET ALEXANDER HAY, VICE PRESIDENT OF THE SNB, SAID THAT DEMAND FOR LOANS HAS FALLEN SIGNIFICANTLY, WHICH SHOULD MAKE IT POSSIBLE FOR THE SWISS GOVERNMENT TO BORROW A PLANNED 300 MILLION SWISS FRANCS WITH EASE. THE TWO SEPARATE ISSUES ARE ENVISAGED; A FIVE-YEAR BORROWING AT A YIELD OF 6.12 PERCENT AND AN EIGHT-YEAR LOAN TO YIELD 6.42 PERCENT. ASKED WHETHER THE LEVEL OF 1.5 BILLION SF IN FEDERAL BORROWING ALREADY REACHED THIS YEAR COULD CONTINUE WITHOUT OVERBURDENING THE MARKET, HAY SAID THAT SINCE IT IS LIKELY THAT THE RECESSION WILL CONTINUE IN SWITZERLAND LIQUIDITY WILL REMAIN HIGH AND PRESSURES FROM FEDERAL BORROWINGS SHOULD HAVE A NEUTRAL EFFECT ON INTEREST RATES, THE RATE OF INFLATION AND EXCHANGE RATES.

HAY SAID THAT MONETARY POLICY OBJECTIVES OF THE SNB HAVE NOT CHANGED: M1, EXPECTED TO INCREASE BY 6 PERCENT, AUGUST 1974 - AUGUST 1975 ACTUALLY INCREASED ONLY 4 PERCENT. THE SNB HAS PURCHASED DOLLARS EQUIVALENT TO 7.8 BILLION SF BUT 6.2 BILLION HAVE BEEN RE-EXPORTED.

#### 5. ECONOMIC DEVELOPMENTS.

A. WHOLESALE AND RETAIL PRICES: THE WHOLESALE PRICE INDEX DROPPED DURING SEPTEMBER BY .7 PERCENT TO 146.8 (1963 - 100) TO A LEVEL 5.5 PERCENT BELOW THAT PREVAILING AT END-SEPTEMBER 1974. THE SEPTEMBER DECLINE WAS PRIMARILY DUE TO DECREASES IN THE WHOLESALE PRICE OF CHEMICAL AND RELATED PRODUCTS; IN PARTICULAR ORGANIC AND INORGANIC CHEMICALS, DYES, PLASTICS, GLUES AND INSECTICIDES. SOME AGRICULTURAL AND RAW MATERIAL PRICES UNCLASSIFIED

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ALSO DECLINED, BUT OTHERS ROSE SHARPLY, AMONG THEM DIESEL FUEL AND HEATING OIL.

THE CONSUMER PRICE INDEX ROSE .4 PERCENT IN SEPTEMBER TO 164.5 (SEPTEMBER 1966 - 100) AND IS NOW 5.4. PERCENT ABOVE THE LEVEL PREVAILING AT END-SEPTEMBER 1974. THIS IS THE SMALLEST INCREASE FOR THE MONTH OF SEPTEMBER SINCE 1969. THE AVERAGE ANNUAL RATE OF INFLATION, JANUARY -SEPTEMBER 1975, WAS 7.7 PERCENT; FOR THE SAME PERIOD IN 1974 THE AVERAGE RATE WAS 10.1 PERCENT. MOST OF THE SEPTEMBER INCREASE WAS DUE TO THE INCREASE IN FUEL AND HEATING OIL PRICES. HEATING OIL PRICES ROSE 8 PERCENT IN SEPTEMBER.

B. SWITZERLAND'S FOREIGN TRADE IN SEPTEMBER: THE VALUE OF SWISS IMPORTS FELL 18.3 PERCENT AND EXPORTS 2.9

PERCENT BELOW THE LEVELS OF SEPTEMBER 1974. IMPORT PRICES WERE DOWN 7.7 PERCENT AND EXPORT PRICES 1.1 PERCENT, SO THE DECREASE IN REAL TERMS WAS 10.9 PERCENT FOR IMPORTS AND 1.9 PERCENT FOR EXPORTS. IMPORTS IN SEPTEMBER WERE 2,868.6 MILLION SWISS FRANCS; EXPORTS 2,821.5 MILLION. FORTY-SEVEN POINT ONE MILLION SWISS FRANCS WERE ADDED TO THE 1975 TRADE DEFICIT; THIS DEFICIT NOW STANDS AT 555.5 MILLION SWISS FRANCS, OR 92.2 PERCENT LESS THAN IN SEPTEMBER 1974. EXPORTS NOW COVER 98.4 PERCENT OF SWISS IMPORTS. FOR THE FIRST 9 MONTHS OF 1974 IMPORTS WERE VALUED AT 25.8 MILLION SWISS FRANCS; EXPORTS AT 24,161 MILLION. IMPORTS FOR THIS PERIOD FELL BY 20.6 PERCENT AS COMPARED TO THE SAME PERIOD LAST YEAR; EXPORTS BY 7.2 PERCENT; IN REAL TERMS BY 17.9 PERCENT AND 10.6 PERCENT.

C. UNEMPLOYMENT STATISTICS: UNEMPLOYMENT ROSE TO A TOTAL OF 12,449 AT END-SEPTEMBER, OR .4 PERCENT OF THE WORK FORCE, FROM 10,114 AT THE END OF AUGUST (.3 PERCENT OF THE WORK FORCE) AN INCREASE OF 23.1 PERCENT OVER THE AUGUST FIGURE. THE LARGEST INCREASE IN ABSOLUE TERMS WAS IN THE METAL AND MACHINE INDUSTRIES, FOLLOWED BY RETAIL TRADE AND THE JEWELRY AND WATCH INDUSTRIES.

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## Message Attributes

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